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**SECRETARY, BOARD OF
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF CCI PARADOX UPSTREAM LLC FOR AN ORDER ESTABLISHING A SPECIAL DRILLING UNIT FOR THE MIDDLE MESA FEDERAL 26-23-29-24 DIRECTIONALLY DRILLED WELL FOR THE PRODUCTION OF GAS AND ASSOCIATED OIL AND HYDROCARBONS FROM THE HERMOSA FORMATION COMPRISED OF THE SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$ AND SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$ OF SECTION 26, TOWNSHIP 29 SOUTH, RANGE 24 EAST, SLM, SAN JUAN COUNTY, UTAH

**FINDINGS OF FACT,
CONCLUSIONS OF LAW AND
ORDER**

Docket No. 2016-006

Cause No. 166-08

This Cause came on for hearing before the Utah Board of Oil, Gas and Mining (the "Board") on Wednesday, March 23, 2016, at approximately 10:20 a.m., in the Auditorium of the Utah Department of Natural Resources Building in Salt Lake City. The following Board members were present and participated at the hearing: Chairman Ruland J. Gill, Jr., Carl F. Kendell, Gordon L. Moon, Chris D. Hansen, Michael R. Brown and Richard K. Borden. Board member Susan S. Davis was unable to attend. The Board was represented by Michael S. Johnson, Esq., Assistant Attorney General.

Participating and testifying on behalf of Petitioner CCI Paradox Upstream LLC ("CCI") electronically from CCI's Houston offices (pursuant to authorization granted by the Board in an Order entered on March 16, 2016) were Anna Hudson - Landman, Mark

Andreason - Vice President - GeoScience, and Kevin Neeley - Vice President - A&D, Reserves & Reservoir. Messrs. Andreason and Neeley were recognized by the Board as experts in geology and petroleum engineering, respectively, for purposes of this Cause. Frederick M. MacDonald, Esq., of and for MacDonald & Miller Mineral Legal Services, PLLC, appeared in person before the Board as attorney for CCI.

The Division of Oil, Gas and Mining (the "Division") did not file a staff memorandum in this Cause but participated in the hearing. Melissa Reynolds, Esq., Assistant Attorney General, appeared as attorney for, and with the Board's permission, John Rogers, Associate Director - Oil & Gas, and Dustin Doucet, Petroleum Engineer, asked questions on behalf of, the Division. At the conclusion of CCI's presentation in chief, Ms. Reynolds expressed that the Division supported the granting of CCI's Request for Agency Action dated February 10, 2016 (the "Request"), as conformed to the testimony and other evidence provided at the hearing.

By Letter filed with the Board on February 29, 2016, the United States Bureau of Land Management, Utah State Office ("BLM"), expressed its support for the granting of the Request. However, no one from the BLM made an appearance at the hearing.

No other party filed a response to the Request and no other party appeared or participated at the hearing.

The Board, having considered the testimony presented and the exhibits received into evidence at the hearing, being fully advised and for good cause, hereby makes the following findings of fact, conclusions of law and order in this Cause.

FINDINGS OF FACT

1. CCI is a Delaware limited liability company in good standing with its principal place of business in Houston, Texas. CCI is duly qualified to conduct business in the State of Utah, and is fully and appropriately bonded with all relevant Federal and State of Utah agencies.

2. The oil and gas underlying the following San Juan County, Utah lands:

Township 29 South, Range 24 East, SLM

Section 26: SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$ and SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$

(containing 20 acres)

(the "Subject Lands") are owned by the United States of America, administered by the BLM, and are subject to United States Oil and Gas Lease UTU-77538 (the "Subject Lease"). CCI is the sole lessee and operating rights owner under the Subject Lease.

3. The SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 26 and the Subject Lease (only insofar as it covers the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 26) are fully committed to the Middle Mesa Federal Exploratory Unit (the "Unit"), approved by the BLM effective October 1, 1998. CCI currently serves as Unit Operator. All of the Subject Lands were originally included in

and committed to said Unit. However, the SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 26 was contracted out of the Unit effective October 1, 2013 pursuant to the terms of the governing Unit Agreement.

4. The contracted Unit Area is now comprised of 899.68 acres, 739.68 acres, including the SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 26, of which comprise the Fifth Revised Hermosa Group Consolidated Participating Area "A," which equates to the Hermosa Formation, defined for purposes of this Cause as follows:

that interval between the stratigraphic equivalence of 4,089 feet (MD) and 5,796 feet (MD), as shown on the Gamma Ray Log of the Middle Mesa Federal 26-23-29-24 Well, with a surface hole location in the SW $\frac{1}{4}$ NE $\frac{1}{4}$, Section 26, T29S, R24E, SLM,

(the "Subject Formation").

5. The Subject Formation is primarily comprised of two productive members: the shallower Honaker Trail, which consists of both marine and non-marine sandstones and shales; and the deeper basal La Sal, which consists of predominately marine limestones. Cross-sections as designated on Exhibit "G" admitted into evidence reflect consistency of both respective members through the Subject Lands. The Subject Formations constitute a "common source of supply" of gas and associated oil and hydrocarbons.

6. Pursuant to an application to drill approved by both the BLM and the Division, CCI spud the Middle Mesa Federal 26-23-29-32 Well (the "Subject Well") on

August 11, 2014 at a surface location 2,157 feet FNL and 2,036 feet FEL in the SW $\frac{1}{4}$ NE $\frac{1}{4}$ of Section 26, and directionally drilled it to a bottom hole location 2,350 feet FNL and 2,489 feet FWL in the SE $\frac{1}{4}$ NW $\frac{1}{4}$ of Section 26. The Subject Well was completed as a producing gas well on November 3, 2014, with first production on October 1, 2014.

7. The Subject Well has productive intervals in the Subject Formation both within and outside of the Unit boundary, but all entirely upon the Subject Lease. As a consequence, the BLM has requested CCI to obtain an order from the Board establishing a special drilling unit for the Subject Well so a communitization agreement can be prepared and approved in accordance with Federal regulations, guidelines and practices. Under the terms of that communitization agreement, production from the Subject Well shall be allocated on a pro-rata acreage basis to the production interest owners in the Subject Lease (as to the lands outside the Unit), and to all of the production interest owners in the Unit participating area (as to the lands within the Unit).

8. CCI's volumetric calculations, as depicted on Exhibits "C" and "H" and with Mr. Neeley's supporting testimony, reflect that the Subject Well will not drain more than the Subject Lands through its existing perforated intervals. Consequently, the Subject Lands are not smaller than the maximum area that can be effectively and economically drained by the Subject Well.

9. The testimony presented supports that a 460-ft. set back between the Subject Well and any new well producing from the Subject Formation should prevent any communication between the wells, and there is no evidence before the Board to reflect a different set back should instead be adopted.

10. Although questionable that it may ever occur, in the event all of the Subject Lands are otherwise included within the Unit and a Unit participating area, CCI desires that the requested drilling unit be suspended, the conforming communitization agreement be terminated, and the terms of the Middle Mesa Unit Agreement then govern, particularly the participating area allocation provisions set forth therein. Said suspension is to become effective as of the effective date of the BLM's approval of the inclusion of all of the Subject Lands into a Unit participating area.

11. A copy of the Request was mailed, postage pre-paid, certified with return receipt requested, and properly addressed to the addresses disclosed by searches of the respective BLM, Utah School and Institutional Trust Lands Administration and San Juan County records, and based on CCI's internal records, to all production interest owners in the Subject Lease covering, and to the governmental agencies owning the oil and gas and having jurisdiction over said minerals underlying, the Subject Lands, and additionally to all production interest owners in the Unit participating area. Copies of the return receipts, evidencing receipt of such mailings, or of the returned mailings themselves, evidencing

either their undeliverability to the last addresses disclosed by the searches of the records indicated above, or the refusal of the addressee to pick them up from the United States Postal Service, were filed with the Board.

12. Notice of the filing of the Request and of the hearing thereon was duly published in the San Juan Record on March 2, 2016, the Moab Times-Independent on March 3, 2016, and in the Salt Lake Tribune and Deseret Morning News on March 6, 2016.

13. The vote of the Board members present in the hearing and participating in this Cause was unanimous (6-0) in favor of granting the Request.

CONCLUSIONS OF LAW

1. Due and regular notice of the time, place and purpose of the hearing was properly given to all parties whose legally protected interests are affected by the Request in the form and manner as required by law and the rules and regulations of the Board and Division.

2. The Board has jurisdiction over all matters covered by the Request and all interested parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and 40-6-6(6).

3. CCI has sustained its burden of proof, demonstrated good cause and satisfied all legal requirements for the granting of the Request as conformed to the testimony and other evidence provided at the hearing.

4. Creation of a special drilling unit for production from the Subject Formation and the Subject Lands for the Subject Well, retroactively to October 1, 2014, its date of first production, is required for the protection of the correlative rights of the parties owning interests in the Subject Lease, and the Unit participating area, and is a requisite to allowing conforming communitization of the Subject Lands in accordance with Federal regulations, guidelines and practice, and the express request of the BLM. It is also fair, reasonable and justified under the circumstances.

5. Suspension of said drilling unit upon the BLM's approval of inclusion of all of the Subject Lands within the Unit and a Unit participating area is fair, reasonable and justified under the circumstances.

6. Adoption of the 460-foot set back, between the Subject Well and any new well producing from the Subject Formation, as requested by CCI, will be protective of correlative rights and prevent waste, and is fair, reasonable and justified under the circumstances.

7. The relief granted hereby will result in consistent and orderly development and the greatest recovery of gas, and associated oil and hydrocarbons from the Subject Formation underlying the Subject Lands.

ORDER

Based upon the Request, testimony and evidence submitted, and the Findings of Fact and Conclusions of Law stated above, the Board hereby orders:

1. The Request as conformed to the testimony and other evidence provided at the hearing is granted.

2. A special drilling unit for the Middle Mesa Federal 26-23-29-24 Well for the production of gas and associated oil and hydrocarbons for the Hermosa Group, defined as:

that interval between the stratigraphic equivalence of 4,089 feet (MD) and 5,796 feet (MD), as shown on the Gamma Ray Log of the Middle Mesa Federal 26-23-29-24 Well, with a surface hole location in the SW $\frac{1}{4}$ NE $\frac{1}{4}$, Section 26, T29S, R24E, SLM,

comprised of the following San Juan County, Utah lands:

Township 29 South, Range 24 East, SLM

Section 26: SE $\frac{1}{4}$ SE $\frac{1}{4}$ NW $\frac{1}{4}$ and SW $\frac{1}{4}$ SW $\frac{1}{4}$ NE $\frac{1}{4}$

(containing 20 acres),

is hereby established, retroactive to October 1, 2014, the date of first production from said Well.

3. No well producing from the Hermosa Group (as defined above) may be located closer than 460 feet from the Middle Mesa Federal 26-23-29-24 Well without an exception location approval by the Division or Board in accordance with Utah Admin. Code Rule R649-3-3.

4. This Order shall be suspended without further order of the Board as of the effective date of the BLM's approval of the inclusion of all of the drilling unit lands in the Unit and a Unit participating area. CCI, or its successor Unit Operator, shall provide to the Board's secretary a copy of the BLM Letter reflecting such determination so the Board's records may be properly noted to reflect such suspension becoming effective.

5. Pursuant to Utah Admin. Code Rules R641 and Utah Code Ann. § 63G-4-204 to 208, the Board has considered and decided this matter as a formal adjudication.

6. This Order is based exclusively on evidence of record in the adjudicative proceeding or on facts officially noted, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63G-4-208 and Utah Administrative Code Rule R64-109.

7. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. § 63G-4-208(e) - (g), the Board hereby notifies all parties in interest that they have the right to seek judicial

review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order issued. Utah Code Ann. §§ 63G-4-401(3)(a) and 403. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 63G-4-302, entitled, “Agency Review - Reconsideration,” states:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63G-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, “Rehearing and Modification of Existing Orders,” states:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of the month.

Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. §63G-4-302 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

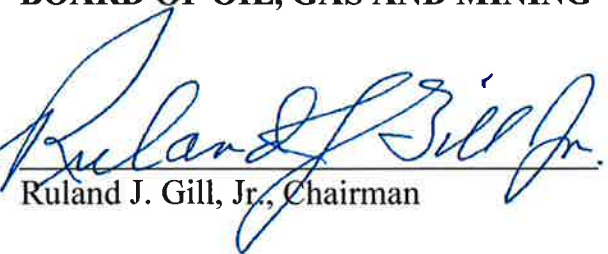
8. The Board retains continuing jurisdiction over all the parties and over the subject matter of this Cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

9. For all purposes, the Chairman's signature on a faxed copy of this Order shall be deemed the equivalent of a signed original.

DATED this 20th day of April, 2016.

**STATE OF UTAH
BOARD OF OIL, GAS AND MINING**

By:


Ruland J. Gill, Jr., Chairman

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of April, 2016, I caused a true and correct copy of the foregoing **FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER** for Docket No. 2016-006 Cause No. 166-08, to be mailed by Email or via First Class Mail with postage prepaid, to the following:

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